



Cost Pressure Intensifies

No sign of cost relief as Dallah announced -18% Y/Y decline in earnings. SAR 0.20 EPS, missed our SAR 0.24 forecast, as fixed costs squeezed margins in slow revenue period. In our view, cost side of Namar (at least phase-1) is fully reflected and capacity uptake will drive EBITDA higher. Dr. Faqeeh hospital could be commercially operational by 1Q20, adding capacity in a relatively underserved area of Riyadh. However, earnings recovery remains elusive for the remainder of the year. Maintain Hold and SAR 63 target price, representing 22.6x 2020E EV/EBITDA.

Inline revenues as Namar picks-up

Revenues for the quarter gained +5% Y/Y to SAR 286 mln, inline with our forecast. 2Q topline was weaker due to summer holidays however Namar continued to make contribution. Note that management indicated signing insurance clients at Namar at yearend 2018, which is now starting to generate patient traffic, in our view. Although details not available in preliminary results, we believe revenue growth has markedly slowed at Nakheel.

Fixed costs squeeze gross margin

Gross margin contracted to 32% from 37% in prior quarter for 2 potential reasons: higher contribution from Namar where pricing is slightly lower than Nakheel and roughly 70-75% fixed costs which squeeze gross margin in slow revenue period. We expect full-year margin to be lower as Namar contribution continues to rise coupled with wage inflation.

Pre-operating expenses from Faqeeh kick-in

Dr. Faqeeh hospital, where Dallah has 31.2% ownership stake, is expected to complete by yearend 2019, followed by regulatory approvals. We project Dr. Faqeeh to be in commercial operation by 1Q20. The Company has started to book pre-operating expenses for Dr. Faqeeh, which could rise in the next two quarters. Concurrently, opex at Namar gained on ramp-up, contributing to -18% Y/Y earnings decline. Net income of SAR 15 mln, missed our SAR 18 mln estimate and consensus SAR 32 mln. Our earnings outlook for the remainder of the year is muted, however 2020 could see a modest rebound.

Share buyback could be supportive

In February 2019, Dallah announced 3.75 mln shares for buyback over the subsequent 12-months. Through 2Q19, some 3.70 mln shares have been repurchased signaling management's confidence in the Company which may be construed positively by investors. At 19.2x 2020E EV/EBITDA shares are not the cheapest in the sector, however capacity uptake at Namar Phase-1 could drive EBITDA higher, assuming most of the cost side is fully reflected.

SAR mln	2Q19	2Q19E	2Q18	Y/Y Chg	1Q19	Q/Q Chg	Variance	Consensus
Sales	286	283	273	5%	321	-11%	1%	291
Gross profit	93	94	92	0%	120	-23%	-1%	
Gross margin	32%	33%	34%		37%			
Operating profit	18	24	20	-8%	41	-56%	-26%	
Operating margin	6%	9%	7%		13%			
Net income	15	18	19	-18%	35	-56%	-17%	32
Net margin	5%	6%	7%		11%			11%
EPS (SAR)	0.20	0.24	0.25	-18%	0.47	-56%	-17%	0.42

SAR 63

12-Month Target price

Hold

Recommendation

Stock Details		
Last Close Price	SAR	52.10
Upside to target	%	20.9
Market Capitalization	SAR mln	3,308
Shares Outstanding	mln	75
52-Week High – Low	SAR	59.77 – 39.40
Price Change (YTD)	%	17.9
3-Mth ADTV	thd	328
EBITDA 2019E	SAR mln	215
Reuters / Bloomberg	4004.SE	DALLAH AB

SAR mln	2018	2019E	2020E
Revenues	1,181	1,226	1,266
Gross Margin	37%	35%	36%
EBIT	146	129	146
Operating Margin	12%	11%	12%
Net Income	142	104	121
Net Margin	12%	9%	10%
EPS (SAR)	1.89	1.38	1.61
DPS (SAR)	1.50	1.50	1.25

Price Multiples			
	2018	2019E	2020E
P / E	27.6x	37.7x	32.4x
EV / EBITDA	21.0x	21.6x	19.2x
P / S	3.3x	3.2x	3.1x
P / B	2.4x	2.5x	2.4x

1-Year Share Performance (rebased)



Source: Bloomberg, Tadawul, SFC

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BUY

Shares of company under coverage in this report are expected to outperform relative to the sector or the broader market.

HOLD

Shares of company under coverage in this report are expected to perform inline with the sector or the broader market.

SELL

Shares of company under coverage in this report are expected to underperform relative to the sector or the broader market.

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